

# C D B G E l i g i b l e A c t i v i t i e s

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## *All CDBG Eligible Activities*

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**The Regulatory Requirements and Eligible Budget Line Item Activity Costs in this section apply to all Community Development Block Grant (CDBG) eligible activities.**

**Additional requirements that apply to specific activities are included in the following pages.**

### Eligible Housing Activities

This program is intended to have a long-term impact on the availability and quality of the affordable housing stock in Indiana.

Any major household system repaired or replaced as part of the rehabilitation process must meet the stricter of the Indiana State Building Code or local building codes. Funds may be used to remedy conditions that, while not posing an immediate threat to health and safety, represent an ongoing threat to the structural integrity of a building and may eventually result in an emergency situation. Rehabilitation activities may be completed to incorporate accessibility design.

Eligible housing activities include:

- Manufactured homes are eligible if they meet IHCD's Manufactured Housing Policy or if rehabilitation will bring the unit up to these standards:
  - A single dwelling unit designed and built in a factory, installed as a permanent residence, which bears a seal certifying that it was built in compliance with the Federal Manufactured Housing Construction and Safety Standards law and which also complies with the following specifications:
    - 1) Shall have been constructed after January 1, 1981, and must exceed nine hundred fifty (950) square feet of occupied space per I.C. 36-7-4-1106 (d);
    - 2) Is attached to a permanent foundation of masonry construction and has a permanent perimeter enclosure constructed in accordance with the One and Two Family Dwelling Code;
    - 3) Has wheels, axles and towing chassis removed;
    - 4) Has a pitched roof;
    - 5) Consists of two (2) or more sections which, when joined, have a minimum dimension of 20' X 47.5' enclosing occupied space; and
    - 6) Is located on land held by the beneficiary in fee-simple title, recorded land sale contract, or 99-year leasehold and is the principal residence of the beneficiary.
  - All other manufactured or mobile homes that do not meet the aforementioned criteria are ineligible to receive rehabilitation assistance on developments funded by the Indiana Housing Community Development Authority.
- For all activities, if there is a long-term lease agreement on the property, a 99-year lease must be recorded in the county recorder's office of the county in which the property is located prior to award document preparation. See IHCD's Implementation Manual for additional information.
- Emergency and youth shelters, migrant/seasonal farm worker housing, transitional housing, permanent supportive housing, and rental housing may be in the form of traditional apartments, group homes, or single-room-occupancy units (SROs).
- Emergency or youth shelters may be in the form of barracks-style housing.
- SRO housing consists of single room dwelling units that are the primary residence of the occupant(s). If the activity consists of conversion of non-residential space, reconstruction, or new construction, SRO units must contain either kitchen or bathroom facilities (they may contain both). For activities involving acquisition or rehabilitation of an existing residential structure, neither kitchen nor bathroom facilities are required to be in each unit. However, if individual units do not contain bathroom facilities, the building must contain bathroom facilities that are shared by tenants. SRO housing does not include facilities for students.

Eligible housing activities **DO NOT** include:

- Creation of secondary housing attached to a primary unit

- Nursing homes, convalescent homes, hospitals, residential treatment facilities, correctional facilities, or student dormitories
- Project-based tenant assistance
- Rehabilitation of mobile homes
- Acquisition, rehabilitation, or new construction located within the boundaries of a 100-year floodplain
- Housing funded with Rental Housing Tax Credits (RHTCs)

#### Form of Assistance

IHCDA will provide CDBG funds to an award recipient in the form of a grant. The applicant may then provide the CDBG award as a forgivable, amortized, or deferred loan to as many other entities as they choose (with the exception of owner-occupied rehabilitation). However, these entities, known as subgrantees, must be identified in the application and approved by IHCDA. The IHCDA recipient must execute a loan agreement, promissory note, mortgage, declaration of affordability commitment, and other documents as necessary for the assisted property.

A title company is required to be used for all loans that occur between the IHCDA recipient and the beneficiary or subgrantee of the program. For example, a local unit of government that chooses to provide homeowner repair and improvement funds as a loan, which is subject to recapture provisions, must use a title company when the loan is made to the homeowner. Another example is when an IHCDA recipient is assisting a property that they do not own. Since all CDBG activities, with the exception of owner-occupied rehabilitation are made as a loan from the local unit of government to a subgrantee, a title company must be used.

If there will be proceeds from an award, the recipient must contact and receive approval from IHCDA regarding the reuse of these funds. The entities receiving a loan from the IHCDA award recipient may not reloan the funds to anyone else.

The State of Indiana, [Department of Financial Institutions](#), has determined that any not for profit that has been certified as a Community Housing Development Organization (CHDO) by the Indiana Housing Finance Authority is exempt from the loan licensing requirement. CHDO receiving CHDO funding and non-CHDO funding are exempt from the loan-licensing requirement. Subsequently, if you are a not for profit that is not certified as a CHDO by IHFA, you could be subject to the loan licensing requirements as listed above. See IC 24-4.5-1-202 (1)).

Additionally, all legal documents between the IHCDA recipient and assisted beneficiary/subgrantee must be recorded at the county recorders office. These documents will be reviewed when monitored by IHCDA staff.

However, if your organization were making more than 25 consumer loans in a year, then the loan-licensing requirement as outlined above could be applicable.

#### Award Term

- The CDBG award must be fully expended within an 18-month term.

#### Leveraging Funds Requirement

- IHCDA requires a 10% match requirement.
- If the applicant is proposing to utilize banked leverage for this activity:
  - And it is the applicant's own banked leverage, the leverage liability on the previous award for which the match was generated must already be met and documented with IHCDA for the leverage to be eligible as of the application due date. Leverage can only be banked on awards beginning with the 2002-2003 application package or later.
  - Or, if it is another recipient's match/leverage, the applicant must provide an executed agreement with the application verifying that the recipient is willing to donate the match/leverage. A boilerplate agreement is found in the Appendices.
    - Only banked leverage from awards made beginning with the 2002-2003 application package or later that have fully met their leverage liability is eligible to donate to another applicant. The award must be closed before the agreement to donate leverage is executed.

- Leverage cannot be sold or purchased and is provided purely at the discretion of the recipient that generated it.
- Banked leverage generated on a CDBG award cannot be used as match on a future HOME award.
- Banked match generated from a HOME award may be used as leverage on a future CDBG award.
- Only banked leverage generated on a CDBG award can be used on a future CDBG award.

### Housing Activity Provisions

- All applicants are required to complete the environmental review record (ERR) and submit it to the appropriate Community Development Representative prior to or with application submission. Refer to the [Environmental and Historic Review User Guides](#) for further explanation of these requirements.
  - Local unit of government applicants must publish a notice requesting a release of funds no later than 7 days following the application due date and submit the publisher's affidavit to IHCD within 14 days of application due date.
- All applicants for single-site activities must have also completed the Section 106 Review and received a concurrence letter or an executed Memorandum of Agreement (MOA), as appropriate, from the Indiana Department of Natural Resources Division of Historic Preservation and Archaeology (DHPA), State Historic Preservation Officer (SHPO) prior to application submission. (Get additional language from Megan concerning initiation and finding info)
- Applicants may not purchase any property to be assisted with CDBG funds until the environmental and historic review process has been completed.
- Local unit of government applicants must demonstrate that it will complete an action to affirmatively further fair housing during the time frame of an award.
- If the applicant is proposing to do acquisition only; at the time of application submission
  - They must certify that there will be no rehabilitation work as part of the undertaking and that the property to be purchased meets the stricter of the Indiana State Building Code or local building code at the time of application submission.
  - No environmental and historic review is required for such activities.
  - IHCD Community Development Inspector must inspect the structure prior to application submission
- Award recipients, except those doing homeowner repair and improvement, will be required to provide an "after rehab" or "construction value" appraisal, whichever is appropriate, from a licensed appraiser for all property assisted with the award with the first draw that includes hard costs. If the applicant is acquiring property an "as-is" appraisal is required with the first draw request for acquisition reimbursement.
- Award recipients will be required to provide proof of adequate builder's risk insurance, property insurance, and/or contractor liability insurance during construction and property insurance following construction for the assisted property throughout the affordability period of the award. Additionally, recipients doing owner-occupied rehabilitation must also stipulate that adequate property insurance be maintained throughout the affordability period in their beneficiary loan documents.
- The applicant must hold one public hearing about the undertaking prior to application submission. Specific requirements must be completed for this meeting, as identified in the Appendices. Additionally, if funded, a second public hearing will be required upon development completion.

### Regulatory Requirements

- All regulatory CDBG requirements listed in [24 CFR Part 570](#) must be met.
- Recipients of a CDBG award must follow competitive procurement procedures for all costs intended to be reimbursed by the award.
- Emergency, youth shelter, and migrant/seasonal farm worker construction activities are subject to the Davis-Bacon wage provisions of [29 CFR Parts 1, 3, and 5](#). Transitional, permanent supportive, or rental housing with 8 or more units under a single ownership and with similar financing may be subject to Davis-Bacon wage provisions. Applicants should contact their Community Development Representative for further guidance.
- Recipients of a CDBG award are subject to the requirements of the Uniform Relocation Act. See the Appendices for guidance on the regulatory requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), as amended, and Federal regulations at [49 CFR Part 24](#) and the requirements of [Section 104\(d\) of Title I of the Housing and Community Development Act of 1974, as amended](#).

- The housing must meet the accessibility requirements of [24 CFR Part 8](#), which implements Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) and covers multifamily dwellings, as defined at [24 CFR 100.201](#). It must also meet the design and construction requirements at [24 CFR 100.205](#), which implement the Federal Fair Housing Act Amendments of 1988 (42 U.S.C. 3601-3619). See [IHCD's Implementation Manual](#) for guidance on the regulatory requirements of Section 504 Accessibility Standards.
- Recipients of a CDBG award are subject to the HUD requirements of dealing with lead-based paint hazards required by [24 CFR Part 35](#). If a risk assessment is required, then all lead-based paint issues must be addressed. See [IHCD's Implementation Manual](#) for guidance on the regulatory requirements of lead-based paint.
- Recipients of a CDBG award are required to perform an environmental and historic review on all assisted properties. For the regulatory requirements of environmental and historic review found in [24 CFR Part 58](#), see the Environmental Review and Historic Review User Guides or contact your IHCD Community Development Representative at (800) 872-0371 for further guidance.

### Affordability Requirements

- All subsidies must be secured throughout the affordability period by a written, legally binding, recorded declaration of affordability commitment.
- Emergency Shelters, Youth Shelters, Migrant/Seasonal Farm worker Housing and Rental housing:

Amount of CDBG subsidy per unit or bed:	Affordability Period
Under \$15,000	5 years
\$15,000 - \$40,000	10 years
Over \$40,000	15 years

- Homeowner Repair and Improvement:

Amount of CDBG subsidy per unit:	Affordability Period
Less than or equal to \$10,000.00	2 years
Over \$10,000.01	3 years

- If HOME and CDBG are used in a development during the same program year, the combined amounts will determine the affordability period.

### Subsidy Limitations

- Combined CDBG funds budgeted for program delivery, award administration, and environmental review cannot exceed 20% of the CDBG award.
- No CDBG funds may be applied toward developer's fee.
- No CDBG funds may be used for reserve accounts for replacement or operating costs. See the description of these costs under Ineligible Costs.

### Eligible Activity Costs

The bolded items listed below are included in the application budget. If you have a question about which line item an expense goes under, contact your IHCD Community Development Representative.

**RETAINAGE POLICY** - IHCD will hold the final \$5,000 of an award until the completion reports, leverage documentation, and closeout documentation is received and approved.

**ACQUISITION** – Limited to the purchase price (at or below appraised value) and related costs associated with the acquisition of real property. The recipient of a CDBG award is required to use a title company when purchasing assisted properties. If the development is acquisition only, there should be no hard costs line item in the Uses of Funds exhibit.

**NEW CONSTRUCTION** – Only available for emergency shelters, youth shelters, and migrant/seasonal farm worker housing. If the activity is migrant/seasonal farm worker housing, a qualified Community Based

Development Organization (CBDO) as defined by the CDBG regulations in 24 CFR 570.204(c), or by an entity carrying out an activity as defined in Section 105(a)(15) of Title 1 of the Housing and Community Development Act of 1974 as amended, must supervise the construction of this activity. For more information, see the definition of a CBDO in the Appendices. Eligible costs include:

- Hard costs associated with new construction activities.
- Utility connections including off-site connections from the property line to the adjacent street.
- Related infrastructure costs - improvements to the development site that are in keeping with improvements of surrounding, standard housing activities. Site improvements may include on-site roads and water and sewer lines necessary to the development.
- For migrant/seasonal farm worker, emergency shelter, and youth shelter, costs to construct an on-site management office, the apartment of a resident manager, or laundry or community facilities which are located within the same building as the housing and which are for the use of the tenants and their guests.
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners.
- Contingency funds used for unanticipated hard cost overruns or change orders.

**REHABILITATION** – Eligible costs include:

- Hard costs associated with rehabilitation activities.
- Lead-based paint interim controls and abatement costs.
- Mold remediation.
- Utility connections including off-site connections from the property line to the adjacent street.
- Related infrastructure costs - improvements to the development site that are in keeping with improvements of surrounding, standard developments. Site improvements may include on-site roads and water and sewer lines necessary to the development.
- For multifamily rental housing, costs to rehabilitate an on-site management office, the apartment of a resident manager, or laundry or community facilities which are located within the same building as the housing and which are for the use of the tenants and their guests.
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners.
- Contingency funds used for unanticipated hard cost overruns or change orders.

**DEMOLITION** – Costs associated with the demolition and clearance of existing structures.

**PROGRAM DELIVERY** - Program delivery costs are those costs that can be directly tracked by address. They include soft costs and client-related costs that are reasonable and necessary for the implementation and completion of the proposed activity. This line item along with administration and environmental review cannot exceed 20% of the CDBG request. Recipients are allowed to draw down this line item as costs are incurred. Additionally, program delivery may payoff a HOME CHDO Predevelopment or CHDO Seed Money loan or a LIHTF Predevelopment or Seed Money loan but may not exceed the 20% line item cap.

Eligible costs include:

Engineering/Architectural Plans	Credit reports	Client in-take/income verification
Plans, specifications, work write-ups	Title searches	Impact fees
Inspections	Recording fees	Realtor fees
Costs estimates	Private lender origination fees	Legal and accounting fees
Building permits	Appraisals	Utilities of assisted units
Demolition permits	Travel to and from site	

**RELOCATION** - This includes relocation payments and other relocation assistance for permanently and/or temporarily relocated individuals, families, businesses, nonprofit organizations, and farm operations where assistance is required and appropriate. Relocation payments include replacement housing payments, payments for moving expenses, and payments for reasonable out-of-pocket expenses for temporary relocation purposes. For additional information on relocation and displacement, please refer to the information provided in the Appendices.

**LEAD HAZARD TESTING** – Costs associated with lead hazard testing includes Risk Assessment, Clearance Test, etc. The limits for this line item are \$800-\$1000 per unit.

**ADMINISTRATION** - The administration line item includes those costs directly related to administering the IHCD award and complying with the regulations associated with these funds. This line item along with program delivery and environmental review cannot exceed 20% of the CDBG request and generally is between \$5,000 and \$10,000. Recipients are allowed to draw down this line item as costs are incurred. The costs associated with preparing the application are not eligible for reimbursement through a CDBG award.

Eligible costs include:

Staff time or professional services related to reporting, compliance, monitoring, or financial management		
Housing activity related training	Housing activity related travel	Communication costs
Postage	Materials, supplies	Photocopying
Rent and utilities	Lead-based paint training	

**ENVIRONMENTAL AND HISTORIC REVIEW** – This line item includes expenses associated with the Section 106 Review and Environmental Review Release of Funds process. This does not refer to a Phase I Environmental Assessment. Those expenses should be included in the Program Delivery line item. This line item along with program delivery and administration cannot exceed 20% of the CDBG request. Eligible costs for this line item are generally between \$2,000 and \$5,000 and include professional services, publication costs, photocopying, and postage. For further information regarding this activity, please read the Environmental and Historic Review Guides contact your IHCD Community Development Representative.

### Ineligible Costs

The following costs are generally ineligible for reimbursement from CDBG funds, unless specifically listed as eligible in an individual Eligible Activity description:

- Commercial development costs - All costs associated with the construction or rehabilitation of space within a development that will be used for non-residential purposes such as offices or other commercial uses. This does not include the common area used by tenants of rental property or the leasing office of the apartment manager. CDBG awards cannot be used to underwrite any portion of commercial development costs. The expenses incurred and income to be generated from commercial space must be reported in a separate “Annual Expense Information” sheet and 15-year proforma.
- Replacement Reserves – Funds used to initially capitalize a reserve fund used for major capital repairs to a permanent supportive or rental housing facility. These funds cannot be applied to a CDBG award. These funds can be capitalized either through operating cash flow or through the development budget on the Uses of Funds exhibit.
- Operating Reserves – Funds used to initially capitalize a reserve fund that covers operating expenses when there are rental income shortfalls over the life of a permanent supportive or rental development. This line item must be included on the Uses of Funds exhibit. These funds cannot be applied to a CDBG award.
- Developer’s Fee – CDBG funds cannot be used to pay developer’s fees.
- Cost associated with any IHCD application preparation.
- Purchase or installation of luxury items, such as swimming pools or hot tubs.
- Purchase or installation of equipment, furnishings, tools, or other personal property that is not an integral structural feature, such as window air conditioner units or washers and dryers.
- Tenant based rental assistance.
- Mortgage default/delinquency correction or avoidance.
- Loan guarantees.
- Annual contributions for operation of public housing.

## ***Emergency Shelters or Youth Shelters***

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**Refer to the section labeled “Regulatory Requirements and Eligible Activity Costs” for additional requirements of this program.**

### **Eligible Emergency and Youth Shelter Activities**

The intent of this activity is to provide funding for the acquisition, rehabilitation, and/or new construction of facilities that provide temporary, emergency housing for homeless persons or victims of domestic violence or provide permanent housing for youth until they are of legal age. Emergency and Youth shelters are considered public facilities by the CDBG regulations and may be either owned by a public entity or a not-for-profit 501(c)3 or 501(c)4 organization. An emergency shelter is designed to provide temporary daytime and/or overnight accommodations for homeless persons and may include appropriate eating and cooking facilities. A youth shelter may include appropriate eating and cooking facilities. The housing provided must be fulltime (7days a week, 24 hours a day) and does not include daycare facilities.

Eligible Activities Include:

- Emergency and youth shelters, migrant/seasonal farm worker housing, transitional housing, permanent supportive housing, and rental housing may be in the form of traditional apartments, group homes, or single-room-occupancy units (SROs).
- Emergency or youth shelters may be in the form of barracks-style housing.

Eligible emergency shelter activities **DO NOT** include:

- Foster care homes owned by individuals, daycare centers, nursing homes, juvenile detention facilities, county homes, or youth camps.
- Homeless prevention activities or the use of commercial facilities for transient housing.
- Transitional housing.

### **Eligible Beneficiaries**

- Emergency shelters must serve persons who would otherwise be homeless.
- Youth shelters must serve persons under the age of 21 that are either wards of the State or homeless. These children may be pre-delinquent teens, or non-violent, neglected, or abused youth. This term does not include any individual imprisoned or otherwise detained under an Act of the Congress or State Law.
- Throughout the affordability period, individuals or families assisted must be persons that are members of groups presumed by HUD to be of low to moderate income (e.g., victims of domestic violence, homeless persons, or wards of the State). IHCD presumes these same individuals to have an income at or below 30% of the area median income for that county; therefore, income verification is not required. This requirement remains in effect throughout the affordability period.
- Recipients of CDBG awards for rental housing will be required to report certain information about beneficiaries of assisted units to IHCD annually throughout the affordability period in the Annual Rental Report.

### **Subsidy Limitations**

- Maximum award amount is limited to \$500,000.
- Maximum CDBG funds per bed may not exceed \$20,000.

**EMERGENCY SHELTER OR YOUTH SHELTER OPERATING COSTS** – This line item is only available for awards that also apply and are awarded CDBG funds for new construction or rehabilitation. This line item is limited to the lesser of \$50,000 or 15% of the CDBG request. The applicant must specify the exact use of these funds in the application forms, which must involve either the provision of new services to clients or a substantial increase in the level of services currently provided.



## ***Migrant/Seasonal Farm Worker Housing***

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**Refer to the section labeled “Regulatory Requirements and Eligible Activity Costs” for additional requirements of this program.**

### **Eligible Migrant/Seasonal Farm Worker Housing Activities**

The intent of this activity is to provide funding for the acquisition, rehabilitation, and/or new construction of housing that is used temporarily by migrant and/or seasonal farm workers while they are working at a farm or farming related business.

The purpose of farm worker housing is to provide decent, safe, and affordable on-farm housing to farm workers. Assistance is available through local units of government to growers who are owners of existing or vacant housing provided for low-income farm workers.

New construction is allowed only if carried out by a Community Based Development Organization (CBDO) as defined by the CDBG regulations in 24 CFR 570.204(c) or by an entity carrying out an activity as defined in Section 105(a)(15) of Title 1 of the Housing and Community Development Act of 1974 as amended. For more information, see the Definitions in the Appendices or contact your Community Development Representative.

Eligible Activities include:

- Emergency and youth shelters, migrant/seasonal farm worker housing, transitional housing, permanent supportive housing, and rental housing may be in the form of traditional apartments, group homes, or single-room-occupancy units (SROs).

Eligible migrant/seasonal farm worker activities **DO NOT** include:

- Rehabilitation of dormitory or barracks style housing camps unless you are converting them to apartments or SRO units.
- The use of a facility for an emergency shelter or transitional housing.
- CDBG funds may not be used for supportive services or operating expenses.

### **Eligible Beneficiaries**

- Individuals or families assisted must be persons that are members of groups presumed by HUD to be of low to moderate income (i.e., migrant/seasonal farm workers) and presumed by IHCD to be at or below 30% of the area median income for that county; therefore, income verification is not required. This requirement remains in effect throughout the affordability period.
- An eligible migrant/seasonal farm worker is a person employed in agricultural work of a seasonal or other temporary nature who is required to be absent overnight from his or her permanent place of residence.
- Eligible beneficiaries do not include immediate family members of an agricultural employer or a farm labor contractor, and temporary H-2A foreign workers. H-2A temporary foreign workers are nonimmigrant aliens authorized to work in agricultural employment in the United States for a specified time period, normally less than 1 year.

### **Subsidy Limitations**

- Maximum award amount is limited to \$500,000.
- Maximum CDBG funds per bed may not exceed \$20,000.

### **Migrant/Seasonal Farm Worker Housing Provisions**

- All migrant/seasonal farm worker housing must provide a minimum floor space of eighty (80) square feet per occupant. All units must provide running water.
- Rehabilitation must meet all Indiana State Board of Health standards for farm worker housing. All migrant and seasonal farm worker housing must obtain a permit to operate from the Indiana State Department of Health. In addition, the construction, installation, or modification of any facility may not begin without having a valid

construction permit issued in accordance with the Indiana State Department of Health. An application for a permit to construct any facility must be made at least ninety (90) days prior to the date construction of the facility is to commence.

- Recipients of CDBG awards for migrant seasonal farm worker housing will be required to report certain information about beneficiaries of assisted units to IHCDA annually throughout the affordability period in the Annual Rental Report.

### Rent Restrictions

- CDBG-assisted rental units will be rent restricted throughout the affordability period to ensure that the units are affordable to low-income households. Please refer to the most recent CDBG rent limits, which may be found on IHCDA's website.
- Published rent limits include the cost of any tenant-paid utilities. You must subtract from the published rent limit an IHCDA or HUD approved utility allowance for all utilities that the tenant will be responsible for. For example, the rent limit in a given county is \$300. The utility allowance for gas heat is \$28, for other electric is \$20, and for water is \$13. For a unit where the tenant will pay for gas heat, other electric, and water, the maximum allowable rent would be \$239 ( $\$300 - \$28 - \$20 - \$13 = \$239$ ).
- If an SRO-unit has neither food preparation nor sanitary facilities, or only one, the rent may not exceed 75 percent of the FMR for a zero-bedroom unit. For example, the Fair Market Rent for a 0-bedroom unit in a given county is \$300. The 40% rent limit for an SRO unit in that county that only has a bathroom and not a kitchen would be \$225 ( $\$300 \times 75\% = \$225$ ).
- If the applicant proposes to receive all or a portion of the rent payment via a tenant-based voucher (rental subsidy), the total tenant rent (see Definitions in the Appendices) cannot exceed the published rent limits for the applicable income level. For example, a tenant residing in a unit set-aside for households at or below 40% of the area median income has a voucher that pays \$100 of his/her rent, and the published utility allowance for tenant paid utilities for the unit is \$50. If the published 40% Rent Limit is \$300, the tenant paid portion of rent cannot exceed \$150 ( $\$300 \text{ Rent Limit} - \$100 \text{ Section 8 Voucher} - \$50 \text{ Utility Allowance} = \$150 \text{ Maximum Tenant Paid Portion}$ ).
- If the development receives federal or state project-based rent subsidy and tenants at or below 50% AMI pay no more than 30% of his/her adjusted income for rent, the maximum rent may be the rent allowable under the project-based subsidy program.
- Rent limits do not include food or the costs of supportive services.
- All tenants who occupy CDBG-assisted rental housing units must be income recertified on an annual basis. The Section 8 definition of household income applies.

## ***Rental Rehabilitation***

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Refer to the section labeled “Regulatory Requirements and Eligible Activity Costs” for additional requirements of this program.

### **Types of Rental Housing:**

- **Permanent Rental Rehabilitation:**  
Eligible rental activities include assisted living facilities as long as they meet IHCD’s definition. IHCD defines an assisted living facility as living arrangements in which some optional services are available to residents (meals, laundry, medication reminders), but residents still live independently within the assisted living complex. Residents of such facilities pay a regular monthly rent, and then pay additional fees for the services that they desire.
- **Transitional Housing Rehabilitation:**  
The intent of this eligible activity is to provide funding for the acquisition and/or rehabilitation of short-term housing for individuals or families, including abused persons and their children. The purpose of transitional housing is to link low cost housing with appropriate supportive services to facilitate the movement of homeless persons to permanent housing within 24 months, or a longer period as determined necessary. Developments funded under this program may not be used for temporary or emergency housing at any time. Optional services must be made available to all residents as specifically required per the program guidelines provided by the applicant.
- **Permanent Supportive Housing Rehabilitation:**  
The intent of this eligible activity is to provide funding for the acquisition and rehabilitation of long-term rental housing with ongoing supportive services available for persons who would otherwise be at risk of being homeless. Developments funded under this program may not be used for temporary or emergency housing at any time.

### **Rent Restrictions**

- CDBG-assisted rental units will be rent restricted throughout the affordability period to ensure that the units are affordable to low-income households. Please refer to the most recent CDBG rent limits, which may be found on IHCD’s website.
- Published rent limits include the cost of any tenant-paid utilities. You must subtract from the published rent limit an IHCD or HUD approved utility allowance for all utilities that the tenant will be responsible for. For example, the rent limit in a given county is \$300. The utility allowance for gas heat is \$28, for other electric is \$20, and for water is \$13. For a unit where the tenant will pay for gas heat, other electric, and water, the maximum allowable rent would be \$239 (\$300 - \$28 - \$20 - \$13 = \$239).
- If an SRO-unit has neither food preparation nor sanitary facilities, or only one, the rent may not exceed 75 percent of the FMR for a zero-bedroom unit. For example, the Fair Market Rent for a 0-bedroom unit in a given county is \$300. The 40% rent limit for an SRO unit in that county that only has a bathroom and not a kitchen would be \$225 (\$300 X 75% = \$225).
- If the applicant proposes to receive all or a portion of the rent payment via a tenant-based voucher (rental subsidy), the total tenant rent (see Definitions in the Appendices) cannot exceed the published rent limits for the applicable income level. For example, a tenant residing in a unit set-aside for households at or below 40% of the area median income has a voucher that pays \$100 of his/her rent, and the published utility allowance for tenant paid utilities for the unit is \$50. If the published 40% Rent Limit is \$300, the tenant paid portion of rent cannot exceed \$150 (\$300 Rent Limit - \$100 Section 8 Voucher - \$50 Utility Allowance = \$150 Maximum Tenant Paid Portion).
- If the development receives federal or state project-based rent subsidy and tenants at or below 50% AMI pay no more than 30% of his/her adjusted income for rent, the maximum rent may be the rent allowable under the project-based subsidy program.

- Rent limits do not include food or the costs of supportive services.
- All tenants who occupy CDBG-assisted rental housing units must be income recertified on an annual basis. The Section 8 definition of household income applies.
- Applicants are not required to charge rent to tenants of transitional housing. If the applicant chooses to charge rent, the rent cannot be more than the applicable rent limit for each income level served with CDBG-assisted units. For example, if a unit is set-aside for households at or below 40% of the area median income, the applicant must charge a rent that does not exceed the 40% Rent Limit, as published by HUD and distributed by IHCD's Community Development Department.

### Underwriting Guidelines

The following are underwriting guidelines for rental developments. The numbers submitted in the application should reflect the nature and true cost of the proposed activity. IHCD will consider any underwriting outside of these guidelines if supporting documentation is provided.

- Operating Expenses – IHCD will consider the reasonableness of operating expenses for each development based on information submitted by the Applicant.
- Management Fee – 5%-7% of “effective gross income” (gross income for all units less Vacancy Rate).
  - 1-50 units 7%
  - 51-100 units 6%
  - 100+ units 5%
- Vacancy Rate – 6%-8%
- Rental Income Growth – 1%-3%/year
- Operating Reserves – four (4) – six (6) months (operating expenses plus debt service)
- Replacement Reserves New Construction: \$250 - \$300 Rehabilitation: \$300 - \$350
- Operating Expense Growth – 2%-4%/year.
- Stabilized debt coverage ratio (usually in year 2) – 1.15-1.35
- Developments structured with no hard debt –minimum cash flow before deferred developer fee must be at least \$250 per unit annually.

NOTE: IHCD will require at least a 1% spread between operating expense growth and rental income growth. Required Documentation: 1) Data supporting the operating expenses and replacement reserves stated in the proforma and 2) If the underwriting is outside these guidelines the applicant must provide a detailed explanation.

Rental and permanent supportive housing award recipients will be required to submit a back-end underwriting form with their close out documents. IHCD will compare this information with the original application. If there are any changes that would have originally resulted in a lower award amount, the applicant may be required to repay a portion of the award.

### Eligible Housing Activities:

Eligible Activities include:

- Emergency and youth shelters, migrant/seasonal farm worker housing, transitional housing, permanent supportive housing, and rental housing may be in the form of traditional apartments, group homes, or single-room-occupancy units (SROs).

Eligible housing activities **DO NOT** include:

- Costs for supportive services, homeless prevention activities, operating expenses, or for the use of commercial facilities for transient housing.
- Emergency shelters that are designed to provide temporary daytime and/or overnight accommodations for homeless persons.
- Rental developments that also have Rental Housing Tax Credit financing.
- Reserve accounts for replacements and operating costs.

### Eligible Beneficiaries

At initial occupancy, each household in an assisted unit must have an annual income equal to or less than 80% of the area median family income (adjusted for size) for the target area. The Section 8 definition of household income applies. This requirement remains in effect throughout the affordability period. All beneficiaries who occupy CDBG-assisted rental housing units must be income recertified on an annual basis.

- Recipients of CDBG awards for rental housing will be required to report certain information about beneficiaries of assisted units to IHCD annually throughout the affordability period in the Annual Rental Report.
- Transitional housing must serve persons who would otherwise be homeless.
- Maximum award amount is limited to \$500,000.
- CDBG funds for acquisition, rehabilitation, relocation and program delivery combined may not exceed:
  - \$35,000 per 0 bedroom/efficiency unit, or
  - \$40,000 per 1 or 2 bedroom unit, or
  - \$50,000 per 3 or more bedroom unit.

**TRANSITIONAL HOUSING OPERATING COSTS** – This line item is only available for awards that also apply and are awarded CDBG funds for new construction or rehabilitation. This line item is limited to the lesser of \$50,000 or 15% of the CDBG request. The applicant must specify the exact use of these funds in the application forms, which must involve either the provision of new services to clients or a substantial increase in the level of services currently provided.

### Rental Housing Provisions

- All residents for rental housing must enter into a lease agreement with the owner of the development.
- All residents for transitional housing must enter into a lease or program agreement with the owner of the development for 12 months or a term mutually agreed upon by both parties.
- Beneficiaries of transitional housing must receive appropriate supportive services while residing in the transitional housing.
- Beneficiaries of permanent supportive housing must receive appropriate supportive services while residing in the permanent supportive units.

## ***Homeowner Repair and Improvement***

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Refer to the section labeled “Regulatory Requirements and Eligible Activity Costs” for additional requirements of this program.

### **Eligible Homeowner Repair and Improvement Activities**

The intent of this eligible activity is to provide funding for minor repairs related to health/safety, accessibility, or the rehabilitation of housing that is the owner’s permanent residence. **Examples of minor repairs are an inoperable or faulty furnace, leaking roof, unsafe electrical wiring and plumbing, hazardous structural conditions, etc.**

Eligible homeowner repair and improvement activities include any single-family owner-occupied property, including a one to four family property or a condominium unit. Ownership must be in fee simple title, a contract purchase, a 99-year leasehold interest, a life estate, a guardian’s deed, or equivalent form of ownership approved by HUD or IHCD. For homes being purchased through a land sales contract, both the buyer and seller must sign agreement documents and approve all rehabilitation, modification, or repair work.

Upon death of the homeowner, if during the affordability period, the assistance will be forgiven.

Eligible activities **DO NOT** include:

- Improvements to infrastructure when no additional rehabilitation work will occur to the house.

### **Eligible Beneficiaries**

- Each beneficiary must own the property and occupy the property as his or her principal residence.
- Each household must have an annual income equal to or less than 80% of the area median family income (adjusted for household size) for the target area. The Section 8 definition of household income applies.

### **Subsidy Limitations**

- Maximum award amount is \$300,000.
- CDBG funds for rehabilitation, relocation, and program delivery combined may not exceed \$15,000 per unit.